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Office of Community Development Policy Bulletin # 17

SUBJECT: Property Requirements and Standards for Homebuyers, Existing Homeowners, and Rental Rehabilitation

EFFECTIVE DATE: August 22, 2006 (Revised February 22, 2008)

The Office of Community Development (OCD) has imposed the following minimum property requirements and standards for OCD assisted units. This policy will address households assisted under the following components:

- Homebuyer
- Homeowner
- Rental Rehabilitation

This policy will also address:

- Accessibility Modifications
- Demolition
- File Documentation

In general, all assisted properties must meet local codes, ordinances and standards after rehabilitation. If no local standards exist, units at minimum must meet Section 8 Housing Quality Standards (HQS). Grantees must have written Rehabilitation Standards as part of their local program guidelines.

Property Requirements for Units Assisted Under the Homebuyer Assistance Component

- Eligible homebuyer units include single-family homes with one unit or condominium units.
- ***New construction units (i.e., units that have not been previously occupied), whether site-built or manufactured, must be connected to public water and/or sewer service.***
- New construction units must meet the local building codes, and must meet the current edition of Michigan Uniform Energy Code. Additionally units must meet the Five (5) Star Home Energy Standards per the HERS rating system (for more detail see attachment D to Policy Bulletin #10).



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- The appraised property value of an assisted homebuyer unit (with or without construction or rehabilitation) cannot exceed the amount listed in the **Maximum Mortgage Limits for HUD FHA Section 203 B Loans**, see OPAL, Administration Menu at <http://www.mshda-opal.org/Admin/default.asp> or in the HRF Summary at <http://www.michigan.gov/mshda/0,1607,7-141-5564---,00.html>.

Exception: Under an Acquisition Development Resale model (ADR), the sale price of the property to the homebuyer **cannot exceed the lesser of:**

1. The appraised value; or
2. The Maximum Mortgage Limits for HUD FHA Section 203 B Loans

If funds are used for Down Payment Assistance (DPA) only (no rehabilitation costs):

- All applicable State and local housing standards and code requirements apply before the family moves in. At a minimum, the property must meet Section 8 Housing Quality Standards (HQS)
- Manufactured housing must be new or less than ten years old and meet the **Michigan Building Code** or the HUD manufactured housing code, whichever applies to the locality. It must be on a permanent foundation and rehabilitation assistance is not eligible.

For Home Purchase with Rehabilitation (HPR):

- Property must be free from any defects that threaten the health or safety of the occupants before they move in.
- Rehabilitation funds (from all sources) must be committed and time line must be set and approved by MSHDA.
- Grantee and homebuyers must arrange for all the rehabilitation work needed to bring the property up to **applicable local codes**, standards, and ordinances (at a minimum HQS) to be completed within 90 days after title transfers to them.
- The property must be vacant, owner-occupied, or being purchased by the renter at the time of the purchase agreement.

Property Requirements for Units Assisted Under the Homeowner Assistance Component

CDBG funded Units: MSHDA allows a small amount (a maximum of 15%) of a **CDBG** funded Homeowner Assistance Component to be used on properties where you only undertake “emergency repairs”. If CDBG funds are used to do emergency repairs, a Grantee must develop a policy that establishes guidelines for funding a request for emergency assistance, including a definition for what is considered an emergency.

HOME funded Units: After rehabilitation with HOME funds, the property cannot have an appraised value that exceeds the amount listed in Maximum Mortgage Limits for HUD FHA Section 203 B Loans, see HRF Manual for current HUD 203B Limits. A ***Certification of After Rehabilitated Value*** form must be completed for HOME funded homeowner rehab projects, **Attachment A**.

Additional Requirements regardless of funding source:

- After rehabilitation, the property must meet Section 8 HQS or local housing code whichever is more stringent.
- If the existing house is infeasible for rehabilitation, the structure may be demolished and another home may be built or brought to the site, as a “rehabilitation” activity.
- Manufactured housing must be a part of the community’s permanent housing stock, which is defined as follows:
 1. Is on a permanent foundation;
 2. Is taxed as real property; or
 3. Is not subject to a chattel mortgage or severance agreement that treats the unit as personal property.

Note: Manufactured homes on rented land (including homes in manufactured housing communities) are not eligible.

Property Requirements for Units Assisted Under the Rental Rehabilitation Component

MSHDA has minimal requirements regarding the size of rental properties to be assisted. Properties must be maintained to meet, at a minimum, HQS throughout the period of affordability. HOME assisted properties of 1-4 units must be inspected every 3 years to insure HQS compliance. Properties of 5-24 units must be inspected every 2 years. Properties of 25 units or more must be inspected annually. (See **Attachment B, On-Site Rental Compliance Report**.) Eligible activities under this component include moderate or substantial rehabilitation of existing occupied or vacant rental housing. Administrators have had the greatest success with properties of one to six (1-6) units. The following identifies the ineligible and eligible properties and eligible costs under the Rental Rehabilitation Component:

Ineligible Properties

- Temporary shelters
- Efficiency Units
- Commercial properties
- Public Housing units may not be assisted nor may properties owned by ecclesiastical entities (churches).

Eligible Properties

- Single unit homes may be assisted if they are rental properties.
- Grantees may fund rehabilitation on certain units in a multi-family building, but once CDBG or HOME funds are invested, all units in the project must meet HQS standards, even if they are not assisted.
- Rental units in owner-occupied duplexes may be assisted, but only the rental unit may receive rental rehabilitation funds. If grantees want to rehabilitate the owner-occupant's unit, funds must come from another source. CDBG, HOME, or MSHDA funds that are designated for rehabilitating owner-occupied properties may be used if they are available.
- Properties previously assisted with HOME funds generally cannot be assisted again, unless assistance is provided during the first year and maximum subsidy has not already been provided. A property assisted with County Allocation funds cannot be assisted more than once in a two-year grant term. Local Program Guidelines must outline when a property can be assisted again (5 years, 10 years etc).

Asbestos Survey Requirement

A rental property owner of a pre-1980 structure, that has employees that work in the building, must have an Asbestos survey done on their building, before the owner can apply for Rental rehabilitation assistance for that building. The Asbestos Survey is a MIOSHA requirement, and MIOSHA has issued tickets with significant fines to landlords who have not had this required survey.

Accessibility

New construction units must meet the "Visitability Standards For OCD Funded New Construction Projects" (see Attachment E to Policy Bulletin #10)

Rental Rehabilitation

A landlord must make reasonable accommodations in rules, policies, practices, or services when the accommodations may be necessary to afford the person with a disability equal opportunity to use and enjoy residential real property.

A landlord shall not refuse to permit, at the expense of the person with a disability, reasonable modifications of existing premises occupied or to be occupied by the person with a disability, if those modifications may be necessary to afford the person with a disability full enjoyment of the premises.

A reasonable modification may include the addition of handrails in a lavatory. In this instance, the modification may be at the landlord's expense, because the handrails may remain after the person relocates and can be beneficial to the next tenant. A reasonable modification such as

relocation of a counter top may be made at the expense of the person with the disability. The person with the disability may be required to return the counter top to its original position upon vacating the premises.

Demolition

Demolition is considered an eligible activity under both the CDBG and HOME programs when a property is determined to be dilapidated or is found to be economically infeasible for rehabilitation. These properties must have been vacant for three months before they are demolished. **Note:** There are variations between the two funding sources:

- **Demolition with CDBG funds** must be in support of a housing program, targeted housing strategy, or neighborhood revitalization effort. The reuse may be open space or land held for future development, if it is part of an adopted plan by the locality. The specific reuse plan must be submitted with the housing proposal to OCD. (Program income rules would apply when the land is sold.)
- **Demolition with HOME funds** can only be done if it is part of a particular housing project intended to provide affordable housing that will begin construction within 12 months.

Note: The proposed reuse of the property will determine if Davis-Bacon applies to the demolition project. For further information on the applicability of Davis-Bacon, refer to the Davis-Bacon Policy Bulletin #14.

File Documentation

For listings of documentation which grantees need to maintain in each project file (homebuyer, homeowner and rental rehabilitation) and/or submit to their CD Specialist, please refer to MSHDA Website, Community Development Tools, Required Documents at http://www.michigan.gov/mshda/0,1607,7-141-5564_46919-176587--,00.html.

Property requirements will oftentimes vary with the funding source (CDBG, HOME, or MSHDA funds). Before soliciting applications for your respective homebuyer, homeowner, or rental rehabilitation program, please be certain you are familiar with the property requirements. Should you have any questions, contact your Community Development (CD) Specialist or CD staff at (517) 373-1974.

Attachments:

- A - Certification of After Rehabilitated Value
- B - On-Site Rental Compliance Report